



# **Statement of Financing Workgroup Update**

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***Your Financial Partner @ Work***

# Agenda

- Challenges in Reconciling the Statement of Financing
- Statement of Financing Workgroup Mission
- Statement of Financing Terminology and Basic Relationship
- Steps and Hints In Reconciling the Statement of Financing
- Partnering to Reduce Statement of Financing Adjustment

# Statement of Financing

- Reconciles budgetary-based Statement of Budgetary Resources (SBR) to accrual-based Statement of Net Cost (SNC)
- Demonstrates an entity's proprietary and budgetary financial information agrees
- Ensures consistency of reporting
- Adds creditability to financial data

# Reconciling Challenges - Process

- Report Mapping
  - DDRS report mapping
  - Treasury crosswalk
- Understanding the Statement of Financing (SOF)
  - Terminology used in the Statement of Financing
  - Relationship between budgetary and proprietary data
- Transaction Process
  - Consistency in posting budgetary and proprietary data
  - Budgetary data is created from proprietary data
  - Non-posting of capitalized costs (current year purchases)

# Reconciling Challenges - System Limitation

- Need for transaction driven system
- Need for dual posting (systems that process proprietary and budgetary data simultaneously)
- Need for system to capture needed data to populate Statement of Financing
  - Capitalized costs
- Reconciliation of field reported data

# Statement of Financing Workgroup Mission

- **Training**
  - Provide mechanism/training to identify potential cause of discrepancy
  - Assist entities in understanding Statement of Financing reconciliation process
- **Review Business Practices/Process**
  - Examine issues contributing to discrepancy between proprietary and budgetary data
  - Identify and document problem areas
  - Identify challenges by entities
  - Address policy concerns

# Statement of Financing Workgroup Mission

- Reduce/eliminate the Statement of Financing adjustment
- Recommend report mapping/crosswalk changes
- Prepare to meet the department's goal of a clean opinion

# Workgroup Accomplishments

- Identified report mapping issues with distributed offsetting receipts
- Each entity identified items that caused reconciling differences
- Corrected \$1.4 billion adjustment for one entity (mapping issue)
- Requested statement crosswalk changes by Treasury
- Identified a list of potential causes of reconciling differences
- Identified disconnects caused by policy/guidance



# Potential Causes of Reconciling Differences

- Current-Year Purchase of Capitalized Assets
- Nonexchange Revenue
- Other Gains/Losses
- Inventory, Cost of Goods Sold, OM&S Used
- Transfer In/Out of Assets from Federal Sources
- Offsetting Receipts
- Revaluation of Assets or Liabilities
- Work-in-Process/Construction-in-Progress
- Prior Year Eliminations

# Unresolved Report Mapping and Policy Issues

- Reversal of nonexchange revenue - SOF line 6, 9 and 26
- Statement of Financing (SOF) Crosswalk
  - Applied Overhead (USSGL 6600) and Cost Capitalization Offset (USSGL 6610) on SNC, not on SOF
- Custodial revenue (Interest, penalties, fines - USSGL 5310, 5311, 5312) reported on SNC, not on SOF
- Decreases in public receivables is not reflected on SOF
- Treatment of non-material prior-year adjustments



# Workgroup Next Steps

- Develop a list of questions to assist entities in identifying process issues
- Flowchart Statement of Financing transactions from source to statement
- Identify the amount of “true gain/losses” and determine the portion related to balancing journal vouchers

# Terminology

- Budgetary Resources (Used in Context of SOF)
  - Net Obligated Resources
  - Not Total Resources (Appropriation Received and Available)
- Exchange Revenue
- Nonexchange Revenue
- Offsetting Receipts
- Spending Authority From Offsetting Collections
- Budgetary Impact vs No Budgetary Impact

# Components - Statement of Net Cost

- Proprietary Accounting - GAAP
- Exchange Revenue Only
- All Expenses
- Other Gains/Losses - Exchange Revenue Only

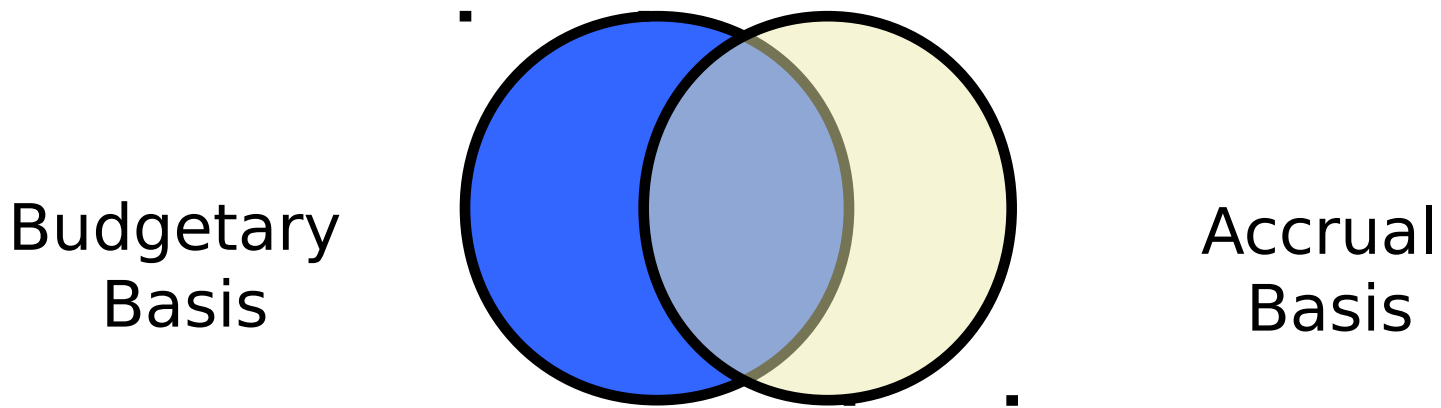
# Components - Statement of Financing

- Exchange Revenue (Lines 2,4,26,27)
- Nonexchange Revenue (Lines 4,6,9,14)
- Expenses (Lines 1,19,20,21,23,25,27)
- Gains/Losses - Exchange & Nonexchange (Lines 9,26)
- Transfers In/Out of Assets from Other Federal Agencies (Line 7)
- Imputed Financing (Line 8)
- Capitalized Assets - Purchased in Current Year (Line 15)
- Credit Reform Program (Lines 2,14,21)

# Sections of The Statement of Financing

- Resources Used to Finance Activities
  - Budgetary
    - Resource does not finance an activity unless it is obligated
    - Statement of Financing includes only obligated resources
  - Others
- Resources Used to Finance Items Not Part of the Net Cost of Operations
- Components of Net Cost of Operations Which Do Not Generate or Use Resources In Current Reporting Period
- Net Cost Of Operations

# Statement of Financing - Bridging the Gap



Net Cost of Operations:

- Obligations
- Less: Current-year obligations which are not expenses
- Add: Expenses which are not current-year obligations



# Steps to Reconciling Statement of Financing

- 1. Obligations, Net of Offsetting Collections and Offsetting Receipts
- 2. Add: Non-budgetary Resources
- 3. Resources That Do Not Fund Net Cost of Operations
- 4. Components of Cost of Operations That Do Not Require or Generate Resources
- 5. Net Cost of Operations

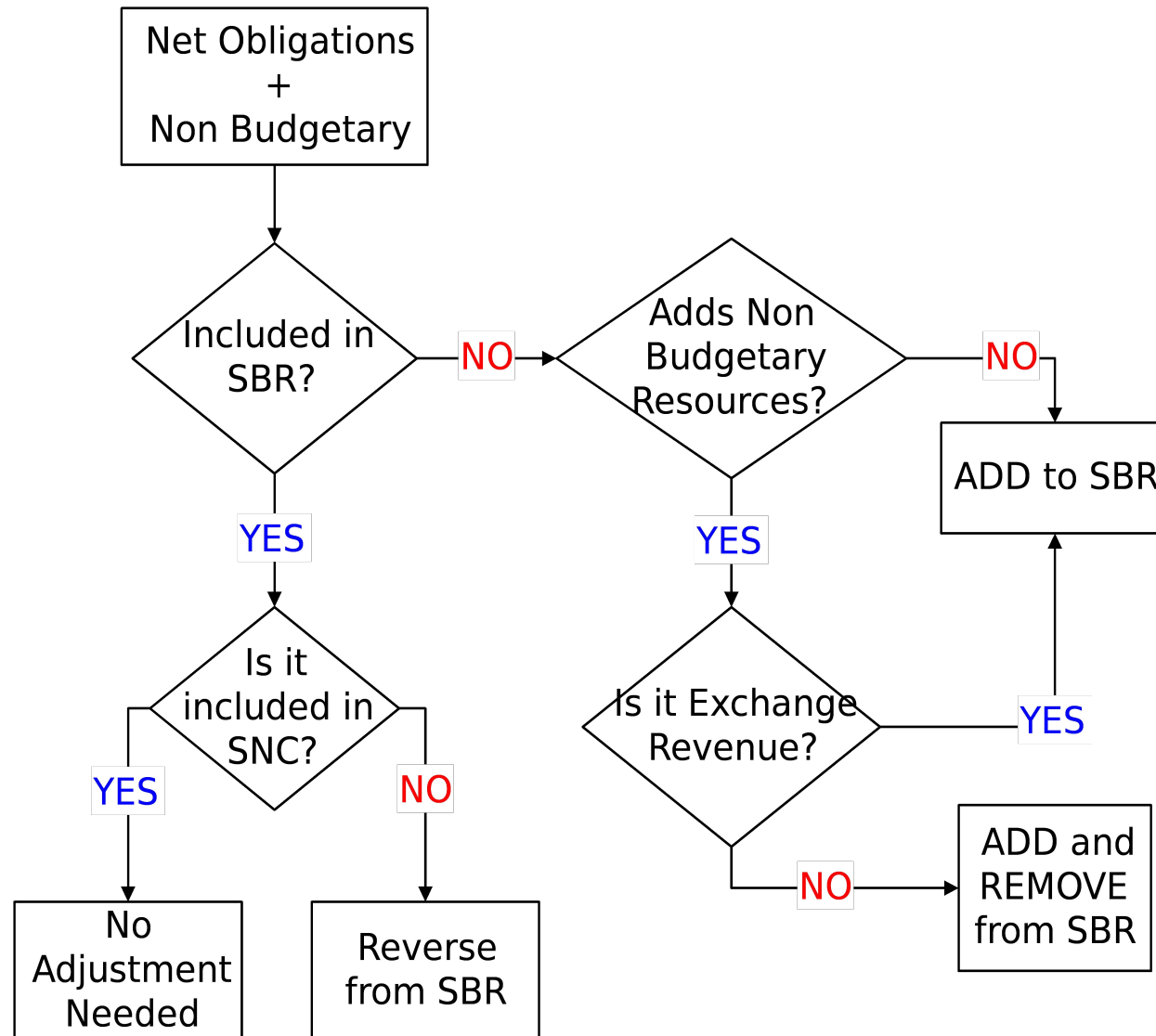
# Reconciliation Tools

- Section V Reconciliations
  - Compares budgetary to proprietary relationships
  - Valid exceptions
  - Reconciliation manual under development
- Statement of Financing Metric

# Bridging the Gap - Rules For Reconciling

- Rule 1: Any transaction that is on the Statement of Net Cost **only** must be added to the Statement of Financing
- Rule 2: Any transaction that is on the Statement of Budgetary Resources **only** must be reversed on the Statement of Financing
- Rule 3: Compare transaction with Treasury guidance and reevaluate transaction

# Ruling For Reconciling



# Resources That Do Not Fund Net Cost Of Operations

- Budgetary transactions that do not affect Statement of Net Cost
  - Undelivered Orders
    - Enter - (SOF Line 1)
    - Exit - (SOF Line 12a)
  - Cost Capitalized on the Balance Sheet
    - Capitalized Purchases (e.g. Inventory, Equipment)
    - Enter - (SOF Line 1)
    - Exit - (SOF Line 15)
    - Memo Account 8802

# Cost That Do Not Require or Generate Resources

Proprietary transactions with no corresponding budgetary entry

- Expenses Not Requiring Resources
  - Depreciation (SOF Line 25)
  - Amortization (SOF Line 25)
  - Bad Debts (SOF Line 27)
  - Cost of Goods Sold (SOF Line 27)
  - Operating Materials & Supplies Used (SOF Line 27)
  - Extraordinary Items (SOF Line 27)

# Cost Requiring or Generating Resources in the Future

Proprietary transactions with no corresponding budgetary entry

- Future Funded Expenses (SOF Lines 19-21,23)
  - Accrued Unfunded Expenses
  - Upward Adjustments to Subsidy Expenses

# Different Recognition of Revenue

- **Budgetary Exceptions:** Budgetary Resources That Do Not Fund Net Cost of Operations
  - Unfilled Customer Orders
    - Enter - (SOF Line 2)
    - Exit - (SOF Line 12b)
- **Proprietary Exceptions**

Revenue from the Public (SOF Line 22)

  - Budgetary - Recognizes public revenue when collected
  - Proprietary - Recognizes revenue when earned (GAAP)



# Non-Budgetary Resources

- **Nonexchange Revenue**
  - Non-Cash Donations & Forfeiture of Property (SOF Line 6)
  - Other Resources (SOF Line 9)
- **Transfer In/Out of Assets (SOF Lines 7,16b)**
- **Imputed Financing (SOF Line 6)**
- **Gains/Losses - Exchange (SOF Line 26)**

## HYBRID SOF Lines

- Offsetting Receipts (SOF Line 4,14)
- Revaluation of Assets or Liabilities (SOF Line 26)

# Helpful Hints In Reconciling SOF

- Check DDRS Report Mapping
  - Referential Data
- Check Treasury Transaction Codes
  - Proper posting
  - Treasury Web Site:  
<http://www.fms.treas.gov/ussgl/current.html>
- Check Treasury Crosswalk
  - Required statement layout
  - Required USSGL
- Refer Issue to Statement of Financing Workgroup



# Partnering With DFAS To Reduce SOF Adjustment

- Develop An Estimating Mechanism to Capture Current-Year Capitalized Costs
  - Statement of Financing, Line 15
- Review the reasonableness of gains/losses and nonexchange revenue reported
  - Identify source of these transactions
- Implement Field Level Reconciliation of Proprietary to Budgetary Data

# Terminology

- Exchange Revenue

Inflows of resources to a governmental entity that the entity has earned. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return (Reference FASAB Standard #7).

- Nonexchange Revenue

Inflows of resources to the Government that the Government demands or that it receives by donations. The inflows that it demands include taxes, duties, fines, and penalties. (Reference FASAB Standard #7).

# Terminology

## Offsetting Receipts

Offsetting receipts are collections that are credited to general fund, special fund or trust fund receipt accounts and that offset gross outlays. Unlike offsetting collections, which are credited to expenditure accounts and offset outlays at the account level, offsetting receipts are credited to receipt accounts and offset outlays at the agency or government-wide level. Offsetting receipts are introduced as a new line item in the SBR. Offsetting receipts offset budget authority and outlays at the agency level in the Budget of the United States Government, but are not reflected in budget execution reports (SF 133), which provide account-level information only (Reference OMB Bulletin 01-09).

# Terminology

## Spending Authority from Offsetting Collections

Collections from the public that result from business-type or market-oriented activities and collections from other Government accounts. These collections are deducted from gross disbursements in calculating outlays, rather than counted in governmental receipts. These offsetting collections are credited directly to appropriation or fund accounts. The authority to spend offsetting collections is a form of budget authority. (OMB, The Budget System and Concepts) (Reference FASAB Standard #7).

## Other Financing Sources

Inflows of resources that increase net position of a reporting entity but that are not revenues or gains. Borrowing is not included as other financing sources, since it does not increase the net resources of the reporting entities. (Reference FASAB Standard #7).



# Points of Contact

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Questions?

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